

## Message Text

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43

ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 ACDA-05 CIAE-00 INR-07 IO-10

L-03 NSAE-00 NSC-05 EB-07 NRC-05 OES-03 FEAE-00

DODE-00 ERDA-05 COME-00 TRSE-00 ERDE-00 /067 W

----- 025417

P R 091150Z SEP 75

FM AMEMBASSY MADRID

TO SECSTATE WASHDC PRIORITY 2952

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

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BRUSSELS FOR ERDA

E.O. 11652: N/A

TAGS: ETRD, EFIN, ENRG, SP

SUBJ: WESTINGHOUSE BIDDING FOR \$600 MILLION REACTOR  
PROJECT

REF : STATE 212498; STATE 111737; MADRID 2920 (ALL NOTAL)

1. SUMMARY: MESSRS. OWEN AND WHITNACK OF WESTINGHOUSE  
BRUSSELS CALLED AT EMBASSY BEFORE REF STATE 212498 RECEIVED,  
TO REQUEST ASSISTANCE IN OBTAINING A CONTRACT FOR THE  
CONSTRUCTION OF THREE NUCLEAR REACTORS, MENTIONED THERE.  
(WESTINGHOUSE COMPETING FOR CONSTRUCTION OF THREE INSTEAD OF  
ONE AS REPORTED MADRID 2920 SINCE GOS HAS DECIDED AWARD  
ESCATRON I AND II JOBS TO WINNER OF VANDELLOS COMPETITION.)  
THEY NOTED THAT THEIR FIRM HAD ALREADY LOST A \$100 MILLION  
CONTRACT FOR A NUCLEAR STEAM SUPPLY SYSTEM AT TRILLO TO  
SEIMENS,DUE PRIMARILY TO THE MORE FAVORABLE FINANCING  
TERMS OFFERED BY THAT GERMAN FIRM. THEY EXPRESSED THE FEAR  
THAT NON-COMPETITIVE FINANCING COULD CAUSE WESTINGHOUSE TO  
LOSE THE CONTRACT FOR THE THREE REACTORS AS WELL. END SUMMARY  
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2. MR. WHITNACK SAID THAT ON THE TRILLO STEAM SYSTEM JOB SEIMENS OFFERED 90 PERCENT FINANCING, A SIX-YEAR GRACE PERIOD, AND AN INTEREST RATE AT BETWEEN 8-1/2 AND 9 PERCENT, AS COMPARED TO EXIM BANK'S 45 PERCENT FINANCING, 30 PERCENT GUARANTEE AND REQUIREMENT THAT CUSTOMER BORROW 15 PERCENT MORE FROM NON-US SOURCES AND RAISE 10 PERCENT IN CASH. SEIMENS HAD ALSO HELD IN RESERVE AN OFFER OF TWO HUNDRED MILLION DEUTCHMARKS CREDIT TO BE SPENT IN GERMANY IN CASE EXIM HAD MADE A MORE LIBERAL OFFER. IN ADDITION, A REPRESENTATIVE OF UNION ELECTRICA, ONE OF WESTINGHOUSE'S POTENTIAL CUSTOMERS FOR THIS PROJECT, HAD BEEN TO THE UNITED STATES AND SEEN 10 OR 15 PRIVATE BANKS NONE OF WHICH WERE WILLING TO FINANCE ANYTHING FOR A TERM OF MORE THAN FIVE YEARS.

3. WESTINGHOUSE IS NOW BIDDING FOR CONSTRUCTION OF THREE PLANTS: VANDELLOS II AND ESCATRON NUCLEAR UNITS I AND II. WESTINGHOUSE'S REACTORS WOULD BE IN THE RANGE OF 950 TO 980 MEGAWATTS WHILE THE FRENCH ONES WOULD BE BETWEEN 925 AND 965. THE REACTOR AT VANDELLOS WILL BE OWNED 54 PERCENT BY ENHER (EMPRESA NACIONAL HIDROELECTRICA DE RIBAGORZANA, S.A.), 28 PERCENT BY HIDRO ELECTRICA DE CATALUNA, 10 PERCENT BY HIDRO ELECTRICA DE SEGRE AND 8 PERCENT BY FECSA (FUERZAS ELECTRICAS DE CATALUNA). ESCATRON I IS OWNED 37-1/2 PERCENT EACH BY ENDESA (EMPRESA NACIONAL DE ELECTRICIDAD) AND ENHER AND 25 PERCENT BY ELECTROUNIDAS DE ZARAFOZA. ESCATRON II IS OWNED JOINTLY BY ENHER AND ENDESA. MR. OWEN STATED WITH SOME EMPHASIS THAT HE HAD BEEN TOLD THAT IT WOULD NOT BE POSSIBLE TO DIVIDE THIS WORK BETWEEN COMPETING BIDDERS.

4. FRAMATOM, APPARENTLY THE ONLY OTHER BIDDER, AND THE BANQUE DE LA UNION EUROPEENNE, ARE OFFERING A CREDIT PACKAGE FOR THESE PROJECTS WHICH INCLUDES A 5-1/2 -YEAR GRACE PERIOD, 10-YEAR REPAYMENT PERIOD, A BASIC INTEREST OF 7-1/2 PERCENT RAISED TO 7.63 BY TAXATION AND INCREASED BY A GUARANTEE FEE OF 1.06 PERCENT, A COMMITMENT FEE OF 0.3 PERCENT AND A ONE-TIME 0.2 PERCENT LOAN FEE, SO THAT EFFECTIVE INTEREST RATE COMES VERY CLOSE TO 9 PERCENT. IN ADDITION, THE BANK HAS OFFERED TO FINANCE IN FRANCS 85 PERCENT OF THE PART OF THE PROJECT WHICH WOULD INVOLVE EXPENDITURE IN FRANCE, AND 15 PERCENT OF THE SPANISH PORTION IN PESETAS. (THIS FACET OF LIMITED OFFICIAL USE

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THE ARRANGEMENT WOULD ALSO SERVE TO MITIGATE THE POSSIBLE EFFECTS OF EXCHANGE RATE FLUCTUATION.) IT ALSO OFFERS TO CAPITALIZE THE INTEREST RATE SO THAT ONLY THE INTEREST ON THE INTEREST NEED BE PAID OUT DURING THE 5-1/2 -YEAR GRACE PERIOD, AND TO HELP IN OBTAINING FINANCING FOR THE REST OF THE TOTAL PACKAGE.

5. EVEN MORE IMPORTANT IN THE VIEW OF WESTINGHOUSE REPRE-

SENTATIVES WAS THE FACT THAT BOTH FRENCH AND GERMAN FINANCING REQUIRED FAR LESS INFORMATION FROM THE POTENTIAL CUSTOMERS THAN DID EXIM BANK. QUESTIONS ON INVESTMENT FLOW, OUTSIDE INVESTMENT, SOURCES OF OUTSIDE BORROWING AND DETAILED DEMONSTRATIONS OF THE SOLVENCY OF CUSTOMERS, ACCORDING TO THE WESTINGHOUSE CALLERS, GREATLY EXCEED WHAT HAD BEEN REQUIRED BY THAT INSTITUTION BEFORE ITS PRESENT RULES CAME INTO FORCE. DETAILED REPLIES TO THESE QUESTIONS, THEY STATED, WOULD CONSTITUTE A GROSS VIOLATION OF ACCEPTED NORMS OF COMMERCIAL SECRECY.

6. THEY SAID THEIR FIRM WAS REGARDED AS MORE QUALIFIED, SINCE IT ALREADY HAS AN ESTABLISHMENT IN SPAIN WHICH FRAMATOM DOES NOT. HOWEVER, THEY WOULD NEED 90 PERCENT FINANCING, SIX-YEAR GRACE PERIOD, 10-YEAR REPAYMENT PERIOD AND THE LOWEST POSSIBLE INTEREST RATE IN ORDER TO COMPETE EFFECTIVELY WITH THE FRENCH OFFER.

7. IN RESPONSE TO THE INQUIRIES CONTAINED IN PARA 5, REF STATE 212498, EMBASSY CONCURS IN WESTINGHOUSE VIEW THAT INI INTENDS MAKE SINGLE AWARD FOR THREE PLANTS. ON DIVERSIFICATION, GOS HAS OFTEN EXPRESSED POLICY OF AVOIDING DEPENDENCE ON ANY ONE SOURCE FOR VITAL RESOURCES. HENCE, AWARD TO SIEMENS OF TRILLO PROJECT COULD HAVE BEEN INFLUENCED BY SUCH CONSIDERATIONS, BUT FINANCING TERMS PROBABLY WEIGHED MORE HEAVILY. EMBASSY DOES NOT SEE NECESSARY DIRECT CONNECTION WITH ENUSA'S URANIUM ENRICHMENT PROGRAM. BASED ON PREVIOUS EXPERIENCE, EMBASSY BELIEVES THAT EXTENSION SEPT 30 DEADLINE POSSIBLE, ESPECIALLY SINCE MANY GOS OFFICIALS WILL BE VACATIONING UP TO SEPT 15. HOWEVER, EMBASSY WILL CHECK THESE ESTIMATES WITH APPROPRIATE GOS OFFICIALS AND ADVISE ACCORDINGLY.

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8. ACTION REQUESTED: WESTINGHOUSE REPRESENTATIVES THROUGHOUT CONVERSATION EXPRESSED GREAT CONCERN AT WHAT THEY CHARACTERIZED AS LOSS OF TRILLO BUSINESS AND PROBABLE LOSS OF \$600 MILLION IN REACTOR CONSTRUCTION IN SPITE OF CLEAR TECHNICAL SUPERIORITY ON THEIR PART, BECAUSE OF FAR MORE FAVORABLE FINANCING TERMS THAN ANYTHING AVAILABLE IN THE US. EMBASSY WOULD APPRECIATE DEPARTMENT'S CONSULTING WITH EXIM BANK AND, SHOULD THIS WESTINGHOUSE ACCOUNT BE SUBSTANTIALLY ACCURATE, URGE EXIM TO DO EVERYTHING POSSIBLE TO PROVIDE FINANCING TERMS WHICH WILL ENABLE WESTINGHOUSE TO CONTINUE TO BE COMPETITIVE IN A MARKET THAT UP TO NOW HAS BEEN LARGELY SUPPLIED BY US TECHNOLOGY.  
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## Message Attributes

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**Copy:** SINGLE  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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